

✓ The ✓  
Financial Crisis  
... in ...  
British Columbia.

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By F. J. PROCTER.

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*"Omnia superat Virtus."*



**Herbert Fairbairn Gardiner,**

**Hamilton, Ontario.**

# The Financial Crisis

.....in.....

## British Columbia.

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It is a remarkable characteristic of the ordinary elector that the subject of the finance of his Province or country is a matter which he rarely attempts to grasp. Figures are wearisome to him, the Budget a mathematical juggling feat which passeth understanding, and the Statement of Public Accounts a work of art which may command his respect, but fails to entice his interest. Yet this elector, in his own private affairs, is very capable of reckoning his profits and losses in taking out his yearly balance, and grasping with intelligence his personal financial position. He has yet to realize that the education he has derived from the experience of his own business has given him the necessary power, in a greater or less degree, to examine and understand the public business of the Province. This lack of general attention to Public Accounts has been strikingly evident during the past, and it is the object of these few pages to attempt to place before the people of British Columbia, as simply and briefly as possible, the present financial state of their Province, to point out the cause of existing conditions, and to show what appears to be the only possible remedy. The figures used have been taken directly, with few exceptions, from the Provincial Government Reports.

The first step to be taken is the examination of the sources of revenue. On turning to the Statement of Public Accounts for the fiscal year ending 30th June, 1900 (the last published), there will be found a comparative statement of the receipts and expenditure from the year ending 30th June, 1887, to the year ending 30th June, 1900, a period of fourteen years.

From the figures given in this table it will be seen that during these fourteen years the net revenue of the Province has nearly trebled, and it may be pointed out that during that period the population has increased in about the same ratio.

It is very important to examine in detail the sources from which our principal revenue is derived, and it will be at once noticed that some of these are fixed and do not admit of growth—such, for instance, as the Dominion Government's annual payments for interest, for subsidy, and for lands conveyed, amounting in all to \$164,151. The other sources—from which we can reasonably expect a steady increase with the growth of population and development—may be enumerated as follows :

Free Miners' Certificates, Mining Receipts General, Real Property Tax, Income Tax, Revenue Tax, Registry Fees, Chinese Restriction Act, Royalty on Coal, Dominion Grant per capita.

The Dominion grant per capita, according to the terms of the Union, is fixed at 80 cents per head until the population reaches 400,000, and then it becomes stationary. We can, therefore, never receive from this source more than \$320,000 per annum. The taxes on Real Property, Income, Revenue, and Registry Fees will naturally increase with the growth of population, development and trade. Probably, the fairest estimate of increase, justified by the experience of the fourteen years prior to 1901, is on the basis of population. We could, I think, reasonably expect with double our population to double our present revenue from these sources, but I find no justification for expecting more than this. From the list I have given there are left Free Miners' Certificates, Mining Receipts General and Royalty on Coal. It is difficult to estimate the probable increase from these sources, or to determine whether with, say, double our population, these receipts would increase in a higher, equal, or lower ratio. Population in these instances can hardly be taken as a fair basis of estimate, for with the free advent of capital for mining development, a large increase in the receipts might be obtained, without a much larger increase in population. Even if this should happen, as I shall point out further on,



a large mining development, and consequently an increased revenue from these sources, will be accompanied by an extraordinary demand for expenditure. At present, unfortunately, the mining outlook in the Province hardly warrants the expectation of a rapid increase in these receipts.

The other sources from which the Provincial Government derives its income, and which I have not mentioned, are of lesser importance, and although a natural increase may be looked for, must remain limited and comparatively small.

The important feature to notice is the limitation of the sources of the Provincial income. It is difficult to discover in what way new or increased taxation can be imposed without causing general dissatisfaction, hindrance to immigration, and the withdrawal of capital.

Turning to the Statement of Expenditure, it will be seen that during the last fourteen years our expenditure has also trebled itself. Comparing the year ending 30th June, 1887, with the year ending 30th June, 1900, it would appear that this increase is over stated, but a comparison of 1886-7 with the years ending 30th June, 1898 and 1899, will show that this increase has been attained. It may also be pointed out that the net expenditure given in the comparative statement from which these figures have been taken does not take into account various sums, annual provision for which has to be made. These sums, including the Sinking Fund, the difference between the interest on railway bonds and the receipts from the earnings, and the advances made on account of interest on the dyking bonds, are rightly enough charged to Capital Accounts and taken as part of the assets of the Province. Nevertheless, it must be remembered that while in a sense these payments are decreasing our liabilities, so much additional money has to be found annually in order to create these assets, which, apart from the Sinking Fund, are open to considerable criticism as to their immediate value.

During the last fourteen years the total expenditure has been more than five million dollars over the revenue, and this does not take into account Sinking Fund and the other payments not charged to Expenditure. This large deficit has

been so far provided for by various loans, but when it is considered that year after year our expenditure exceeds our receipts, and that it is necessary to continue borrowing to keep up the Sinking Fund and other payments, it is not difficult to realize that the Province is drifting into serious financial embarrassment. Exception may be taken to the statement that the annual Sinking Fund payments have to be provided for from time to time by new loans. It may be said that these payments are a first charge on the revenue, and that the money borrowed is for other purposes, the Public Works Department, for instance. This is true, as far as it goes, but the fact remains that the aggregate annual expenditure exceeds the revenue, and the difference has to be provided for. The Sinking Fund forms part of the aggregate expenditure, and the point to be observed is that while its annual payments lessen our old liabilities we are creating new and larger ones by overdraft and loans to cover the annual deficit.

During the four years previous to 30th June, 1900, the average annual deficit (not including the Sinking Fund and other accounts not charged to Expenditure) was about \$415,000.

An examination of the items of Expenditure fails to suggest a solution of the problem of making ends meet, by any sufficient scheme of economy. It is instructive to examine these items, and I give them for the year ending 30th June, 1900, as they appear in the statement referred to :

Public Debt.....	\$472,955.14
Civil Government (salaries).....	172,577.24
Administration of Justice (salaries). ..	119,073.36
Legislation.....	47,993.18
Public Institutions (maintenance) ..	108,976.74
Hospital and Charities.....	53,395.92
Administration of Justice (other than salaries).....	96,001.44
Education.....	286,319.10
Transport.....	15,595.54
Revenue Services .....	11,576.24
Public Works.....	444,752.01
Miscellaneous.....	118,196.00

In looking at these figures it will be seen at once that the Public Debt payments must inevitably, under present conditions, increase—in fact, have already done so by interest and Sinking Fund payments on new loans. With the exception of the items of Education and Public Works, the other expenditures may be passed over with a brief word. It is not my object to pick holes in the minor details of departmental administration ; questions of small economies may be left in the hands of others more competent to deal with them. I am, of course, well aware that considerable criticism is occasionally extended to some of the departments, accompanied by suggestions of extravagance and waste. In government administration a certain laxity in these matters is usually observable, but I doubt if the strictest attention would make a very appreciable difference in the working expenses of the departments. The Public Accounts show that the rate of salaries paid is comparatively small, and the only comment which suggests itself with regard to the money spent on the Maintenance of Public Institutions, Hospitals and Charities is that the expenditure could probably be increased with benefit to the Province.

With regard to Education, the cost for the year ending 30th June, 1900, was \$286,319, and since then it has risen, and will, I believe, show an increase of about \$100,000 for 1902. Under the present system this expenditure is likely to grow steadily, and it is improbable that any government would undertake the questionable responsibility of proposing a change in the present system of free education.

Taking, therefore, the whole expenditure, with the exception of Public Works, it may, I think, be conceded that no present reduction of importance can be effected, and that a proportionate increase may be looked for with the growth of the Province, an increase which, with the exception of what are termed running expenses, is likely for many years to grow equally with the increase of revenue, as it has done during the past fourteen years.

We arrive now at the crucial point of our expenditure, the Public Works department, and it is here that we find the

most important possibilities of compression or expansion. The expenditure is divided into four parts :

Works and Buildings.  
Government House, Victoria.  
Roads, Streets, Bridges and Wharves.  
Surveys.

The first includes new buildings, government offices, public schools, hospitals, general repairs, etc. The second includes repairs, expense and maintenance of Government House. The third, and most important item, includes the expenditure for roads, streets, bridges and wharves, and the last, surveys. It is possible that the outlay under the first item may occasionally be unwarranted and in some cases wasted, but the necessity for expenditure of this character must at the same time be granted, and the amount annually spent cannot be considered extravagant. The second item is comparatively unimportant ; and the fourth, surveys, has never reached a serious outlay, and although perhaps the work undertaken may at times be open to criticism, it need not be considered here. The third, which I have already mentioned as the most important and admitting of the greatest elasticity, is the expenditure for roads, streets, bridges and wharves. In the year ending 30th June, 1900, the amount spent under this heading was \$323,328, a comparatively small amount, and I believe that probably a large portion of this was expended in general repairs. I think that any one who considers the matter carefully will agree that this expenditure is inadequate to meet the demands of the Province. It is true that in comparison with other Provinces our expenditure in Public Works appears heavy, but when we consider the immense area of British Columbia practically undeveloped, the necessity for increased outlay becomes obvious. At least three times this amount, and probably more, could be spent by the Public Works Department with advantage, and with the prospect of receiving a greater proportionate return in revenue than can be obtained from petty expenditure scattered throughout the Province. But, although it may be true that increased expenditure in the Public Works Department will bring a proportionately greater revenue, it is



probable that a considerable period will elapse before the compensation of a sufficiently increased revenue will be obtained, and during that period it will become more difficult to raise the necessary money to continue the policy of greater development. To spend increased sums, if obtainable, for a few years, and then through failure of borrowing resource to be forced to cut down the expenditure, would be impolitic and prejudicial to the interests of the Province.

Another feature which must be pointed out is that with extra expenditure in the Public Works department, and consequent development, and increase of population, the expenditure of the other departments would become proportionately higher.

This Province has an area of nearly 400,000 square miles, and only a fraction of it is at present opened up. With its limited sources of revenue and difficult physical conditions, it occupies—from a financial standpoint—a unique position in the Dominion. Demands for Provincial expenditure spring up from every side, but they can only be inadequately provided for. There are great tracts of good agricultural land lying idle through want of money to make them accessible. The discovery of mineral deposits and the establishment of mining camps call, and will continue to call, for assistance, and at the same time strain the resources of every government department. I referred before to the extraordinary expenditure which would accompany an increase in mining development. What I meant by that was that such development would mean a number of scattered and isolated mining camps in different districts, each with equally just claims on the Provincial Treasury for financial assistance, and creating an additional strain not only on the Public Works department, but also on the Civil Government Salaries, Administration of Justice, Education and other departments, and the difficulties of distance and isolation must abnormally increase the cost.

There are certain points which I have touched upon which may meet with some criticism, and before I leave this portion of my subject I will attempt to anticipate one or two of these.

The statement that the excess of Expenditure over Revenue is likely to continue is a direct contradiction of the deduction from past figures made by the late Minister of Finance in his last Budget speech. With characteristic skill he took the figures of Revenue and Expenditure for the years 1893-4, and, comparing them with the estimated income for the present year, showed that the increase of Revenue from that time to the present was 150%, and that the increase of Expenditure had only been 50%. On those figures he argued that in ten years' time the Revenue would be over six millions, and the Expenditure only four millions, leaving an excess of Revenue over Expenditure of two million dollars. Supposing, however, he had taken the year ending 30th June, 1900 (it was certainly as just to take one as another), instead of 1894, the result of this comparison would have shown that the increase of Revenue from then to the present time would have been about 150%, and the increase in Expenditure about 170%; and, to continue his argument, in ten years' time our Revenue would be nearly \$5,000,000, our Expenditure \$6,000,000, leaving an annual deficit of \$1,000,000. This is a striking illustration of the fallacious arguments which can be made from figures. The point lies in the fact that to single out any one past year for comparison affords no basis for sound deduction.

If we take the average excess of Expenditure over Revenue for the last fourteen years we find it to be about 37%. If we wish to see what the effect of increased Revenue has been on Expenditure, we can take the figures from the year ending June, 1897, to 1900,—starting at 1897 because that was the first year in which the mining development brought in considerably increased revenue, helping, in fact, to increase it over 40% from the previous year,—we find that for those four years the average excess of Expenditure over Revenue was about 30%. This at first sight appears to be a reduction in the ratio between Revenue and Expenditure of 7%, but when we examine the figures for the year 1900 we find that the expenditure for Public Works was rather more than \$250,000 below the average expenditure for the previous three years. Had this amount been expended, the average 37% would have been maintained. It would, therefore, seem

that unless the amount expended on Public Works is curtailed, the ratio between Revenue and Expenditure continues the same, even with increased income. Such figures do not perhaps warrant the conclusion that this will always remain so, but goes to prove how difficult it is, with the sources of income at our disposal, to produce an appreciable effect in reducing permanently the excess of Expenditure over Revenue.

Another point which may be raised is that the running expenses of the Government will not increase proportionately with the other expenditure. In answer to this it must be pointed out that they have not done so in the past, but that extra expenditure and higher proportionate increase in other departments have nullified the effect of the proportionately lower cost of the running expenses.

I have now touched briefly on the leading features of the Provincial Revenue and Expenditure, and I trust have given a moderately clear review of each. The principal points which I have attempted to demonstrate may be briefly summed up as follows :—

1. The limitation of the sources of Provincial Revenue.
2. Past and present excess of Expenditure over Revenue and its probable continuance.
3. Inadequacy of the Expenditure of the Public Works Department.

There have been many references made during the last few months with regard to contemplated railway subsidies. I believe that apart from the financial question, there is no more important matter before the Province to-day than the railway question, and it is essential that the people of British Columbia should see that their interests are properly safeguarded by their representatives. The question of cash subsidy, granted the necessity for it is shown, and the means to give are found, is one which calls for the most careful discrimination and intelligent handling. It is evident that the amount of railway construction in this Province during the next ten years must be limited, and it is of paramount importance that in extending either Provincial or Dominion aid



to such construction the greatest care should be exercised in ascertaining that the proposed line will be one which will give the Province the earliest and best results. No subsidy should be paid, even in part, until after construction, and subsequent payments should be conditional on practical evidence of good faith on the part of the company that they will fulfill their engagements. The construction of a railway without prepayment of subsidy is evidence of intention, but the operation of the line after construction for a specified time and under pre-arranged conditions is confirmatory proof of good faith.

It seems, however, reasonable to suppose that before the question of subsidizing railways can come within the range of practical politics, the question of raising the money for that and other pressing purposes must present itself.

It will be said, perhaps, as it has been said before, that the difficulty in raising a new loan for any large amount lies in the present stringent condition of the London money market. This stringency is likely to continue, as far as we are concerned, until our conditions are bettered. The finances of our Province are probably at the present moment understood more clearly in London than in British Columbia.

It may be asked, "Are not the assets of the Province sufficient security for any money which we may want?" If any one will take the trouble to turn up the Public Accounts for the year ending 30th June, 1900, there is given there the Provincial Balance Sheet, which shows a balance of liabilities over assets of \$5,768,564. It is to be feared that this, in conjunction with the annual deficit, scarcely forms the class of security which encourages the easy flotation of a new loan. Again, the remark is heard, "Are not the Provincial Lands sufficient security to borrow on?" It must be remembered that the income from sales and rents is already included in the Revenue Account. Unopened and unsaleable land is poor security for loaning purposes, and the present financial position of the Province lends little hope of extensive expenditure in development in the near future.

In the last Budget Speech, the late Minister of Finance made up the net assets of the Province to \$21,000,000 by ad-



ding to the ordinary balance sheet the supposed value of trails, roads and public buildings and capitalizing the Dominion subsidy. It is most questionable whether the cost of trails and roads should be considered an asset at all. Their only value lies in the fact that through their existence a greater revenue, difficult to estimate or disintegrate, is brought into the treasury. To capitalize these, and then to state that this asset represents so much more borrowing power is absurd, because this indirect income is already included in the annual revenue, and consumed in the expenditure, and cannot be alienated as security for a new loan. This asset, if it be one, is intrinsically valueless and unrealizable. The present method adopted of leaving it out of the Provincial Balance Sheet seems proper, and gives a clearer and truer state of our financial position.

With regard to Public Buildings, these should surely not be taken as assets. They have no realizable value, unless the Province is going out of business. They form part of the Government machinery for running the Province, are unproductive, and rightly written off to expense.

We come to the question of the Dominion Subsidy, and at first sight it might appear for the moment plausible to capitalize this. According to the late Minister of Finance, it should be capitalized at what the subsidy would pay 3% interest on, and this he stated would amount to about \$9,500,000. This asset is created by a "promise to pay" from the Dominion Government, and the value for borrowing purposes would depend on the power to alienate these annual payments from the Province to the lenders. It must be evident that to do this the credit of the Province would be further jeopardized by the reduction of its permanent revenue. If this principle of capitalizing income is correct, an optimistic Finance Minister with a taste for figures might go a step further and point out that our total income is now a little over \$2,000,000, and that this, capitalized on a 3 per cent. basis, represents about \$70,000,000. It would, however, I am afraid be difficult to persuade the money market to accept these figures as representing our assets. It appears to be merely another illustration of the power to mislead by the misuse of figures.



### N o t e.

The chief source of revenue received by the Dominion Government from British Columbia is from the Customs. Practically no goods but those which are for consumption in British Columbia are cleared in B. C. ports, and the province receives no credit for duty on goods shipped through in bond to other parts of Canada. The revenue, therefore, which appears to our credit from Customs represents only the receipts from duty on goods consumed in British Columbia.

In the past there has been, perhaps, a natural tendency on the part of those in trust to hide the worst from the people. Occasional hints, vague and indefinite, that the Province is in financial straits, have been regarded as exaggerated statements made for party purposes. It still remains the unhappy duty of a candid Minister of Finance to announce to the people the impending bankruptcy of the Province.

It is a thankless task collecting figures so condemnatory to our Province's financial position, but it is assuredly better to look the trouble squarely in the face than to stumble blindly on from bad to worse. If there is a remedy, let us look for it now, and put it into operation without delay.

The present financial predicament of this Province hinges upon the fact of the limitation of its sources of revenue, and the impossibility, in the face of this limitation, of keeping the annual expenditure below the receipts. Even if, by the most rigid economy in every department, this could be effected, it would mean Provincial stagnation, from the very fact that there would be still insufficient money for Public Works, and consequent cessation of development. *Where, then, can we look for a solution?* There were two statements published in the report of the present Provincial Government's mission to Ottawa—one showing the revenue contributed by British Columbia to the Dominion during the 30 years ending 30th June, 1900, and the other showing the expenditure by the Dominion on account of this Province for the same period. A comparison of these statements shows that the difference between what we have contributed to the Dominion and what we have received is over *Thirteen Million Dollars* in favor of the Dominion Government since the date of Union. A further examination will show that during the last three years given in this statement we have contributed, after deducting the amount received, over \$2,000,000 annually to the Dominion, and a comparison with other Provinces brings to light the fact that we contribute, per capita, considerably more than they do.

To-day we find ourselves on the verge of bankruptcy, year after year we have been unable to make ends meet, and at the same time contributing these proportionately large



sums to the Dominion Government. Can this be considered an equitable adjustment between the benefits we have received and the price we are paying for them? Surely the birthright of this Province was sold for a mess of pottage.

When the terms of Union were made, this Province was in its infancy; its latent wealth and resources were practically unknown, and its possibilities unrecognized. Those then in authority here, no doubt, failed to grasp the financial straits which such terms must lead to, nor understood that they were placing the progress and credit of their Province at the mercy of the Dominion Government. This has been the result, and to-day we must go as suppliants to Ottawa to beg back a small portion of what we give; often to meet with refusal, or to have some small sop thrown us to keep us quiet. Yet, when I say that those in authority here at the time of Confederation failed to grasp the financial significance of the terms of Union, I am doing injustice to some, who, more far-seeing than the others, strongly opposed the Union on the terms proposed, recognizing the grave result of subordinating their rights as a Country to those of little more than a municipality. We to-day are no longer blinded by the dazzling promises which enticed the people then. We weary of the constant reiteration of the threadbare argument that had the Province refused Confederation, the railway would never have come. There might have been soon temporary delay in its construction, but what mattered a few years more or less before a railway reached our coast, for a port on the Pacific in British Columbian territory was its inevitable destiny. It is not, however, with Confederation that our quarrel lies, but with its terms. Have we no adjustable rights in the matter, or are we bound irrevocably by these Terms of Union? Is not the question one of equity and admitting of reconsideration? It is held by some that the Terms of Union must be final. I hold that no terms which are unjust can be final. It is said that if we seek re-adjustment, the other Provinces will make the same demand. If they are in the same position as we are, they have the right to make the same demand; but we can afford to let them look after their own interests and confine our attention to ours.

This Province, with its 400,000 square miles and the difficulties and expense of administration and development, occupies a position unparalleled by any other Province in the Dominion.

We are unfortunately represented by only six members in the Dominion House, and it is asked, with some show of reason, what possible power have they to assert our demands. They have the right and they should have the power to command the attention of the house on a question of such vital importance to our Province. They should stand together, free from party restraint. The Dominion Government has so far shown mere indifference, not hostility towards this Province, and there is no need to assume the latter until it has been expressed.

The fact is patent that our present sources of income are inadequate to meet our expenditure, and apparently, the only remedy lies in the hands of the Dominion Government. It is impossible to suppose that they will refuse to take up the question with us, and unreasonable to believe that we cannot arrive at some understanding.

There is no originality in the suggestion that the final solution of our financial problem lies in the alteration of the Terms of Union. It is a conclusion which has been evident to many who have given the matter their consideration. Since writing this, the letter from the Premier of the Province to Sir Wilfred Laurier has been published, and it is gratifying to find that an effort is being made to bring about a convention between the Province and the Dominion to discuss a re-adjustment of terms. There is no question of party politics involved in this matter, and the Government should be able to look to the Opposition for support in any honest effort made by them to ameliorate our present financial condition.

It is vital, however, that the basis of re-adjustment be one which will place a certain portion of the permanent receipts which at present go to the Dominion Government at the disposal of the Provincial Government—a promise on the part of the former to expend more money in this Province can only be of temporary benefit to us. It would still leave

us in the same financial difficulty and impaired credit. We must ask for a definite source of revenue which will enable us not only to make ends meet, but allow us more money to expend on development and to meet our obligations. With this and the consequent restoration of our credit, we can look with confidence to the future years.

We hear a great deal in these days of Conservative Meetings and Liberal Conventions. They are no doubt exceedingly interesting to those who attend them, but their utility at the moment is very questionable. What we want to-day is union, not division ; unanimity of opinion and action concerning the interests of the Province, and not blind antagonism on issues which do not concern us. We have come to this Province to earn our bread, to assist in building up its trade, and developing its resources, and to make it, if we can, one of the greatest and richest Provinces in the Dominion. We have interests which are not understood or recognized in the East ; we are in a sense isolated from the Eastern Provinces, and the shades of political opinion which appear of paramount importance to them are, if we only consider the matter carefully, of little importance to us. The contentions of party factions blind us from a clear conception of the pressing needs of our own Province, and the indifference betrayed by the Dominion Government remains unnoticed in the incomprehensible excitement of party strife.

Our duty in British Columbia to-day seems plain enough. We have one issue standing out clear and defined ; an issue involving the financial life of our Province. It remains with the people of British Columbia to tell their representatives to take up their cause with the Dominion Government, to ask for justice, and to work with unwearied patience until they obtain it. To-day we must stand together for the needs of the Province. The British Columbian representatives in the Dominion House must work shoulder to shoulder with the Provincial Legislature to obtain the redress we ask for. Party politics must be forgotten until we have won our cause ; then, and not until then, will there be time to dally with them again.







